

EXPLANATION OF THE NOTICE OF CONTRIBUTION RATES AND STATEMENT OF UNEMPLOYMENT INSURANCE (UI) RESERVE ACCOUNT (DE 2088) FOR CALENDAR YEAR 2004

The Notice of Contribution Rates and Statement of UI Reserve Account (DE 2088) informs you of your Unemployment Insurance (UI), Employment Training Tax (ETT) and State Disability Insurance (SDI) contribution rates for the calendar year 2004. It also shows the items used to determine your UI rate and the balance in your UI reserve account as of July 31, 2003. For more information on experience rating, please request Information Sheet: California System of Experience Rating (DE 231Z) from your local Employment Tax Office (found in the State Government Offices section of your local phone book). The form may also be downloaded from the internet at EDD's Internet address: www.edd.ca.gov, or you can order it directly from the EDD warehouse at:

Employment Development Department
1733W Sports Drive, Suite B
Sacramento, CA 95834
(916) 322-2835

MAIL DATE

This is the official mail date for the Notice of Contribution Rates and Statement of UI Reserve Account for Calendar Year 2004. Due to bulk mailing, some notices are mailed prior to this date.

YOUR ACCOUNT NUMBER

This is the number assigned to you when you registered as an employer with EDD. This number is assigned to you for UI, ETT, SDI, Personal Income Tax (PIT), and Federal Unemployment Tax Act (FUTA) purposes. Please refer to your employer account number when making inquiries about your account.

CONTRIBUTION RATES

UI Contribution Rate - This is your UI contribution rate for the calendar year 2004. New employers are assigned a 3.4 percent rate.

UI Rate Schedule - Section 977 of the California Unemployment Insurance Code (CUIC) mandates which Contribution Rate Schedule is in effect. Each year, the schedule is determined by the ratio between the Unemployment Insurance Fund balance on September 30 and the total wages paid by all employers. All tax rated employers are rated under the same schedule. A copy of the Contribution Rate Schedule is on the last page of this explanation sheet.

NOTE: If this calculation produces a ratio of less than 0.6 percent, the rate the employer would have paid in Schedule F is multiplied by 1.15, rounded to the nearest tenth.

To determine your rate, find your reserve ratio (shown on line 17 of the DE 2088) on the assigned UI rate schedule (i.e., on Schedule "F", ratio .129 would be 2.7%). When the ratio between the Unemployment Insurance Fund balance and the total wages paid by all employers is less than 0.6 percent, rates in Schedule F are multiplied by 1.15 (i.e., 2.7 percent multiplied by 1.15 equals 3.1 percent).

ETT Rate - Employers whose UI reserve account balance is positive (zero or greater) pay an ETT of 0.1 percent. Employers whose UI reserve account balance is negative (shows a minus sign after the amount) do not pay ETT and it is shown as 0.0 percent on the notice.

SDI Contribution Rate - This is the percentage amount to be withheld from each employee's salary. SDI is a wage continuation plan for employees who are unable to work because of non-occupational illness or injury. It is funded through employee payroll deductions. The SDI rate includes an additional 0.08 percent beginning January 1, 2004 based on new legislation (Senate Bill 1661), Paid Family Leave (PFL). For information on PFL visit our Internet site at www.edd.ca.gov, or call 1-877-238-4373.

The SDI withholding rate is the same for all employers and is calculated pursuant to Section 984 of the CUIC. The rate is based on the balance in the SDI Fund and the amount of disbursements and wages paid.

ANNUAL TAXABLE WAGE LIMITS

UI and ETT are paid on the first \$7,000 earned by each employee per calendar year. SDI is withheld on the first \$68,829 earned by each employee per calendar year.

RIGHT TO PROTEST

Any item on the DE 2088 may be protested except SDI and ETT which are specifically set by law. The protest must be filed in writing within 60 days of the mail date shown on the notice (unless an extension is requested and approved for good cause). When filing, include your employer account number, the specific item protested and why you are protesting. Mail your protest to:

Employment Development Department
Contribution Rate Group, MIC 4
P.O. Box 826880
Sacramento, CA 94280-0001

You may call (916) 653-7795 if you need additional information.

Explanation of the UI Reserve Account Breakdown:

1. Previous Reserve Balance - Shows the ending balance in your UI reserve account as of July 31, 2002.
2. UI Contributions Paid - Shows the total of all UI contributions paid by you from August 1, 2002 through July 31, 2003.

NOTE: ETT paid is not considered UI contributions and is not included in this figure. When allowed, Voluntary UI payments are included but cannot be taken as a credit on any tax return.

3. Interest Earned by UI Fund - Shows the amount credited to positive UI reserve accounts for interest earned on the UI Fund. Employers with a negative UI reserve account balance as of July 31, 2003 do not receive a portion of these interest earnings.
4. Negative Balance Reduction - Shows the amount of your negative UI reserve balance cancelled per Section 1027.5 of the CUIC.
5. Benefit Overpayments Collected - Shows the amount credited to your UI reserve account for overpayments recovered from claimants who were overpaid UI benefits as a result of error or fraud.
6. Positive Reserve Account Balances Cancelled - Shows the amount credited to your UI reserve account as the result of the cancellation of positive UI reserve accounts. Whenever an employer ceases to pay wages, the UI reserve account (unless transferred to a successor's account) is cancelled after a period of three consecutive years. Each year the total of the cancelled UI reserve accounts with positive balances is prorated to all employers' accounts.
7. Other Income - Shows your share of money deposited in the UI Fund from others sources.
8. TOTAL CREDITS - Shows the total of all the items added to your UI reserve account beginning August 1, 2002 through July 31, 2003. This amount is the total of items 2 through 7 above.
9. UI Benefits Charged - Shows the amount of UI benefits paid to your former employees from July 1, 2002 through June 30, 2003. This amount should agree with the amount shown on your Statement of Charges to Reserve Account (DE 428T). These charges may also be as a result of a UI reserve account transfer. For partial transfers, the successor will not receive the DE 428T.
10. Increase in Negative Reserve Balances - Shows the amount of prorated charges to your UI reserve account as a result of the increase in the total of all negative UI reserve account balances.

11. Benefit Overpayments Established - Shows the amount of prorated charges to your UI reserve account as a result of UI benefit overpayments established.
12. UI Benefits not Charged to Reserve Accounts - Shows the amount that has been charged to your UI reserve account as a result of CUIC provisions relieving individual UI reserve accounts of charges under certain conditions. Each year, the total of all benefit charges not charged to individual UI reserve accounts is accumulated and prorated to all employers.
13. Other Expenses - Shows the amount of prorated charges to your UI reserve account for miscellaneous expenses of the UI Fund.
14. TOTAL CHARGES - Shows the total of all the items subtracted from your UI reserve account beginning July 1, 2002 through June 30, 2003. This amount is the total of items 9 through 13 above.
15. Your UI Reserve Balance as of July 31, 2003:

Previous Reserve Balance	(line 1)
Plus Total Credits	(line 8)
Minus Total Charges	(line 14)
New Reserve Balance	(line 15)

16. UI Taxable Payroll - Shows the total of all UI taxable wages reported on your Quarterly Contribution Returns (DE 3D) or Annual Reconciliation Statement (DE 7, DE 3HW) for the years 2000, 2001 and 2002 and any adjustments made to the taxable wages for those years. An increase in UI taxable payroll may result in an increase to your UI contribution rate.
17. Reserve Ratio - Shows the ratio between your UI reserve balance and your average base payroll.

Reserve Account Balance = Reserve Ratio
Average Base Payroll

To determine your average base payroll, divide the UI Taxable Payroll figure shown by three (or two if you began business in 2001).

UI Taxable Payroll = Average
3 (2, if only 2 years of Base Payroll
taxable payroll were reported)

NOTE: If taxable wages are reported in at least one quarter of a year, that is considered a full year with wages.

The UI taxable wages from July 1, 2002 through June 30, 2003 shown at the bottom of the DE 2088 are calculated by dividing the UI contributions paid (for the third quarter of 2002 through the second quarter of 2003) by the UI contribution rate assigned for the quarters. The total UI taxable wages are used to calculate the prorated credits and charges.

MINIMIZING YOUR UI RATE

- Work with your employees to avoid separations. Every discharge has the potential to increase your contribution rate.
- When a layoff is unavoidable, contact your local EDD office for assistance in finding work for your displaced workers.
- Respond in time to all claim notices. Failure to respond may cause you to lose future protest rights.
- If possible, offer former employees a job when you are notified they are drawing UI benefits.
- Submit your UI payment within the required time limits, along with an accurately completed DE 88 coupon. Make sure that each of the funds the deposit represents is individually listed and that the funds are totaled correctly. Entering the total figure only on the DE 88 coupon may cause your fund amounts to be incorrectly allocated and your UI rate could increase. Also submit your DE 6 or DE 3BHW, Quarterly Wage and Withholding Report or DE 3D, Quarterly Contribution Return, at the close of each quarter.

RESERVE ACCOUNT TRANSFERS

If you acquire all or part of another business, it may be to your advantage to apply for the predecessor's (former owner's) reserve account. You must submit an Application for Transfer of Reserve Account, DE 4453. If your application is approved, your UI rate will be recalculated and may result in a reduction in your UI rate. If we determine the reserve account transfer will increase your UI rate for the year of acquisition, we will return your application with an explanation.

If you acquire part of another business and wish to acquire a portion of their reserve account you must file an application within 90 days after the date of acquisition. If you acquire all of another business, you have three years to file an application. However, rate reductions are not retroactive. Not all reserve account balances are desirable. If the transfer of your predecessor's reserve account is approved, you will be subject to all or a percentage of the predecessor's benefit charges, which could increase your rate in future years.

VOLUNTARY UI CONTRIBUTIONS

Voluntary Unemployment Insurance (VUI) payments are allowed in years when rate schedules AA to D are in effect. VUI is not available when rate schedules E or F are in effect, or in calendar years to which the emergency solvency surcharge is in effect.

COMMON QUESTIONS

- Q. Why did my rate increase?
- A. The rate will increase for any one or all of the following reasons:
1. A change in the UI rate schedule used for all UI tax rated employers. (Refer to page 1, "UI Contribution Rate Schedule" for more information.)
 2. A change in your taxable payroll for the three years used - 2000, 2001, and 2002. If there is either an increase or decrease this will alter the ratio. (Refer to page 2, item 16, for more information.)
 3. The total charges were more than the total credits. (Refer to page 2, "Explanation of the UI Reserve Account Breakdown," for more information.)
- Q. Why is my reserve account charged when none of my former employees drew benefits?
- A. To ensure the UI Fund remains solvent, all costs must be reimbursed. This is done by sharing costs and income to the UI Fund that are not directly credited or charged to an employer's reserve account. (Refer to page 2, items 5-7 and 10-13, for more information.)
- Q. Is my reserve account balance refundable?
- A. No. UI contributions are deposited in the UI Fund and used only to pay UI benefits. The reserve account is a statistical method of measuring employment experience and it is only used to determine your UI contribution rate. Your reserve balance may not be used as a credit on your Annual Reconciliation Statement (DE 7).
- Q. Why does my rate increase when I hire more employees?
- A. The more employees you have the greater your risk of UI claims. Any increase in your taxable payroll without a corresponding increase in the reserve account balance can result in a higher UI tax rate. If your average taxable payroll increases but your reserve balance does not increase proportionately, your reserve ratio will decrease, causing your UI rate to increase. (See page 2, items 16 and 17, for more information.)
- Q. Can my reserve account be cancelled?
- A. Yes. Whenever an employer ceases to pay wages, the reserve account, unless it has been transferred under CUI, Sections 1051-1060, shall be cancelled on the records of the department after a period of three consecutive years has elapsed following the latest calendar quarter in which the employer paid wages.

UI TAX RATE SCHEDULE

Line	Reserve Ratio		Contribution Rate Schedules							
	Exceeds or =	Less than	Stated as a Percent							
			AA	A	B	C	D	E	F	*F+
1	Less than	-0.20	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2
2	-0.20	-0.18	5.2	5.3	5.4	5.4	5.4	5.4	5.4	6.2
3	-0.18	-0.16	5.1	5.2	5.4	5.4	5.4	5.4	5.4	6.2
4	-0.16	-0.14	5.0	5.1	5.3	5.4	5.4	5.4	5.4	6.2
5	-0.14	-0.12	4.9	5.0	5.3	5.4	5.4	5.4	5.4	6.2
6	-0.12	-0.11	4.8	4.9	5.2	5.4	5.4	5.4	5.4	6.2
7	-0.11	-0.10	4.7	4.8	5.1	5.3	5.4	5.4	5.4	6.2
8	-0.10	-0.09	4.6	4.7	5.1	5.3	5.4	5.4	5.4	6.2
9	-0.09	-0.08	4.5	4.6	4.9	5.2	5.4	5.4	5.4	6.2
10	-0.08	-0.07	4.4	4.5	4.8	5.1	5.3	5.4	5.4	6.2
11	-0.07	-0.06	4.3	4.4	4.7	5.0	5.3	5.4	5.4	6.2
12	-0.06	-0.05	4.2	4.3	4.6	4.9	5.2	5.4	5.4	6.2
13	-0.05	-0.04	4.1	4.2	4.5	4.8	5.1	5.3	5.4	6.2
14	-0.04	-0.03	4.0	4.1	4.4	4.7	5.0	5.3	5.4	6.2
15	-0.03	-0.02	3.9	4.0	4.3	4.6	4.9	5.2	5.4	6.2
16	-0.02	-0.01	3.8	3.9	4.2	4.5	4.8	5.1	5.4	6.2
17	-0.01	0.00	3.7	3.8	4.1	4.4	4.7	5.0	5.4	6.2
18	0.00	0.01	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.9
19	0.01	0.02	3.2	3.4	3.7	4.0	4.3	4.6	4.9	5.6
20	0.02	0.03	3.0	3.2	3.5	3.8	4.1	4.4	4.7	5.4
21	0.03	0.04	2.8	3.0	3.3	3.6	3.9	4.2	4.5	5.2
22	0.04	0.05	2.6	2.8	3.1	3.4	3.7	4.0	4.3	4.9
23	0.05	0.06	2.4	2.6	2.9	3.2	3.5	3.8	4.1	4.7
24	0.06	0.07	2.2	2.4	2.7	3.0	3.3	3.6	3.9	4.5
25	0.07	0.08	2.0	2.2	2.5	2.8	3.1	3.4	3.7	4.3
26	0.08	0.09	1.8	2.0	2.3	2.6	2.9	3.2	3.5	4.0
27	0.09	0.10	1.6	1.8	2.1	2.4	2.7	3.0	3.3	3.8
28	0.10	0.11	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.6
29	0.11	0.12	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.3
30	0.12	0.13	1.0	1.2	1.5	1.8	2.1	2.4	2.7	3.1
31	0.13	0.14	0.8	1.0	1.3	1.6	1.9	2.2	2.5	2.9
32	0.14	0.15	0.7	0.9	1.1	1.4	1.7	2.0	2.3	2.6
33	0.15	0.16	0.6	0.8	1.0	1.2	1.5	1.8	2.1	2.4
34	0.16	0.17	0.5	0.7	0.9	1.1	1.3	1.6	1.9	2.2
35	0.17	0.18	0.4	0.6	0.8	1.0	1.2	1.4	1.7	2.0
36	0.18	0.19	0.3	0.5	0.7	0.9	1.1	1.3	1.5	1.7
37	0.19	0.20	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6
38	0.20	or more	0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.5

*The emergency solvency surcharge rate (1.15 times the rate the employer would have paid in Schedule F, rounded to the nearest tenth).

AUTOMATED INFORMATION LINE

Contribution Rate Group has an automated telephone system to aid in directing your requests for information. Please have your employer account number and Notice of Contribution Rates and Statement of UI Reserve Account (DE 2088) available when you call. For information or assistance, please call: (916) 653-7795.

Equal Opportunity Employer/Program. Auxiliary services and assistance available to persons with disabilities.